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L-02 NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

USIA-06 EB-07 COME-00 TRSE-00 FEAE-00 OPIC-03 AGR-05

SAM-01 SAJ-01 /082 W

----- 076842

R 041422Z DEC 74

FM AMEMBASSY BELGRADE

TO SECSTATE WASHDC 1376

INFO USMISSION NATO

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USMISSION GENEVA

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E.O. 11652: N/A

TAGS: ECON, EGEN, EFIN, YO

SUBJ: FEC VICE CHAIRMAN STATE OF ECONOMY SPEECH

SUMMARY: FEC VICE CHAIRMAN BERISLAV SEFER IN SPEECH TO ASSEMBLY OF SRFY REVIEWED 1974 ECONOMIC PERFORMANCE AND DISCUSSED PLANS AND GOALS FOR 1975. HE EMPHASIZED CONTROL OF INFLATION, REDUCTION OF BALANCE OF PAYMENTS DEFICIT AND CONTINUED TRANSFER OF STATE ECONOMIC POWERS TO ASSOCIATED LABOR AS KEY ELEMENTS IN 1975 PROGRAM. END SUMMARY

1. FEC VICE CHAIRMAN BERISLAV SEFER DELIVERED A "STE OF THE ECONOMY" MESSAGE TO ASSEMBLY OF SFRY IN COURSE OF ASSEMBLY'S DEBATE OVER PAST WEEK OF DRAFT RESOLUTION ON YUGOSLAVIA'S SOCIAL AND ECONOMIC DEVELOPMENT IN 1975. IN SPEECH SEFER REVIEWED 1974 PERFORMANCE AND OUTLINED BASIC GOALS FOR 1975.

2. IN ASSESSING 1974, SEFER REMINDED DELEGATES OF INFLUENCE OF

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INTERNATIONAL FACTORS WHICH WERE UNFORESEEN WHEN 1974 PLAN WAS

FORMULATED AND WHICH COMPLICATED ECONOMIC PERFORMANCE. SEFER REFERRED TO FOLLOWING FAVORABLE RESULTS OF 1974: 7 PERCENT INCREASE IN REAL SOCIAL PRODUCTS; 10 PERCENT INCREASE IN INDUSTRIAL PRODUCTION ;
A 4 PERCENT RISE IN AGRICULTURAL PRODUCTION; 4.5 PERCENT RISE IN EMPLOYMENT; CONSTRUCTION OF 140,000 NEW APARTMENTS (UP .4 PERCENT FROM 1973) AND REAL WAGE GAINS (3 PERCENT).

3. UNFAVORABLE FACTORS WHICH UNDERLAY POSITIVE PRODUCTION RESULTS WERE ACCELERATION OF INFLATION, WHOSE PRINCIPAL CAUSES, SEFER SAID, WERE DOMESTIC, THE GROWING BALANCE OF PAYMENTS DEFICIT AND A LAGGING IMPLEMENTATION OF THE NEW CONSTITUTION WHICH REQUIRES STATE TO TRANSFER ECONOMIC POWERS TO ASSOCIATED LABOR.

A. INFLATION: SEFER CRITICIZED IRRATIONAL SPENDING IN BOTH ECONOMIC AND NON-ECONOMIC SECTORS FOR FUELING PRICE RISES. HE SAID CHANGES IN EXPORT/IMPORT PRICES HAVE NOT BEEN SUFFICIENTLY CONSIDERED IN SPENDING DECISIONS AND CALLED ECONOMY'S REACTION TO RAPID CHANGES IN WORLD ECONOMY "TOO SLOW." SEFER ALSO CRITICIZED APPARENT DIFFICULTY IN REACHING SOCIAL AGREEMENTS IN PRIORITY AREAS NOTING ONLY TWO SECTORS -- AGRICULTURE AND ELECTRICITY -- HAVE CONCLUDED DEVELOPMENT AGREEMENTS. HE BLAMED INFLUENCE OF "SOCIAL-POLITICAL COMMITTEES" FOR THE SLOW PACE. ACCORDING TO SEFER, SYSTEM OF PRICES, WHICH IS EXCESSIVELY UNDER STATE REGULATION, HAS SUPPORTED GROWTH OF PRICES RATHER THAN LIMITED IT.

B. BALANCE OF PAYMENTS: SEFER CITED SEVERAL CAUSES OF DEFICIT:

(1) LOSSES DUE TO CHANGES IN PRICE OF KEY IMPORTS. OIL ALONE WILL COST \$600 MILLION EXTRA.

(2) UNANTICIPATED DECLINE OF KEY IMPORTS, EEC BAN ON BEEF IMPORTS COST YUGOSLAVIA ESTIMATED \$100 MILLION.

(3) CONVERSION OF FOREIGN EXCHANGE RESERVES TO COMMODITY RESERVES WHICH HE ESTIMATED AT \$300 MILLION. BASIC EROSION OF BALANCE OF PAYMENTS IS THAT EXPORTS (UP 5 PERCENT IN VOLUME 74) HAVE SLACKENED IN RECENT MONTHS AND COVER ONLY 53 PERCENT OF VALUE OF IMPORTS (UP 13 PERCENT IN VOLUME IN 1974) WHOSE GROWTH CONTINUES. LIMITED OFFICIAL USE

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(4) DESPITE BALANCE OF PAYMENTS PROBLEMS SEFER REAFFIRMED YUGOSLAVIA'S COMMITMENT TO IDEA OF TRADE LIBERALIZATION SAYING "YUGOSLAVIA'S ECONOMY IS A SMALL ECONOMY, IT MUST BE AN OPEN ECONOMY BECAUSE IN ONLY THAT WAY WILL IT BE ABLE TO BROADEN THE MARKETING POWER AND EXPLOIT THE POSSIBILITIES WHICH STEM FROM THIS FOR ITS DEVELOPMENT."

C. SELF-MANAGEMENT: SEFER SAID AIM OF STRENGTHENING SELF-MANAGEMENT THROUGH IMPLEMENTATION OF CONSTITUTION IS PROCEEDING TOO SLOWLY AND CONSEQUENTLY STATE ADMINISTRATIVE MECHANISMS OF POWER ARE STILL DOMINANT.

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L-02 NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

USIA-06 EB-07 COME-00 TRSE-00 FEAE-00 OPIC-03 AGR-05

SAM-01 SAJ-01 /082 W

----- 077088

R 041422Z DEC 74

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5. LOOKING AHEAD, 1975 POLICY WILL FOCUS ON THREE POINTS:

A. CONTINUED TRANSFORMATION OF SOCIETY AND ECONOMY ON BASIS OF SELF-MANAGEMENT PRINCIPLES.

B. PREVENTION OF FURTHER ACCELERATION OF INFLATION.

C. MAINTAINING CURRENT RESERVE AND INDEBTEDNESS LEVELS IN EXTERNAL ACCOUNTS, REDUCTION OF CURRENT ACCOUNT DEFICIT, AND STRENGTHENING OF EXPORTS.

GOALS OF 1975 PERFORMANCE INCLUDE INCREASES IN REAL SOCIAL PRODUCT OF 6 PERCENT, INDUSTRIAL PRODUCTION OF 7.5 PERCENT AND IN AGRICULTURE OF 2.5 PERCENT.

6. SPENDING AS A WHOLE IS TO GROW AT A SLOWER RATE THAN SOCIAL PRODUCT WITH UPPER LIMIT IN REAL TERMS OF 4.8 PERCENT. SPENDING IN THE NON-ECONOMIC SECTOR SHOULD INCREASE LESS RAPIDLY THAN SPENDING LIMITED OFFICIAL USE

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IN THE ECONOMIC SECTOR WHICH WILL EMPHASIZE INVESTMENT IN ENERGY, RAW MATERIALS AND AGRICULTURE. THE PROPOSED 1975 BUDGET OF 58,375,000,000 DINARS IS 23.3 PERCENT LARGER THAN 1974, BUT 28 PERCENT SMALLER THAN ESTIMATED FROWTH OF SOCIAL PRODUCT. VOLUME OF EXPORTS ARE TO INCREASE 10 PERCENT WHILE THAT OF IMPORTS GROWS 4 PERCENT.

7. SEFER DESCRIBED THE PRICE SYSTEM AS ONE OF WEAKEST POINTS IN CURRENT POLICY AND CALLED FOR SOCIAL AGREEMENT ON PRICES WHICH INCLUDE PARTICIPATION OF FINAL CONSUMERS.

8. COMMENT: THE OVERALL GOALS OF STABILIZATION WITH FOCUS ON INVESTMENT GROWTH IN PRIORITY SECTORS ARE APPROPRIATE TO CONDITIONS OF YUGOSLAVIA'S ECONOMY WITH ITS HIGH RATE OF PRODUCTION BUILT ON SHAKEY FOUNDATIONS OF ACCELERATING PRICE INCEASES AND SIZEABLE CURRENT ACCOUNT DEFICIT. THE GENERAL GOALS OF 7.5 PERCENT RISE IN INDUSTRIAL PRODUCTION AND 6 PERCENT GROWTH IN SOCIAL PRODUCT, COUPLED WITH SPENDING RESTRAINTS, REPRESENT REALISTIC ATTEMPT MAINTAIN GROWTH, EMPLOYMENT AND LIVING STANDARDS, WHILE AVOIDING EXCESSIVE UPWARD PRESSURE ON COST OF LIVING AND IMPORTS. GENERAL GOALS MAY BE ACHIEVABLE BUT IMPORTANT QUESTIONS IS WHETHER RESTURCTURING OF INVESTMENT AND PRODUCTION TOWARD PRIORITY AREAS WILL SUCCEED AND NON-PRIORITY INVESTMENT, GOVERNMENT AND CONSUMER SPENDING WILL MODERATE. HIGH LEVEL OF COMMODITY RESERVES, REFERRED TO BY SEFER, AS RESULT OF CONVERSION OF FOREIGN EXCHANGE RESERVE OFFERS HOPE OF SLOWING INCREASES IN IMPORTS IN NEXT MONTHS, BUT LIMITING IMPORTS TO 4 PERCENT INCREASE (VOLUME) IN 1975 REQUIRES FURTHER MEASURES TO DISCRIMINATE EFFECTIVELY AMONG IMPORT CATEGORIES. INCREASED GOY POLICY ATTENTION, ACTIVE CREDIT SUPPORT BY NATIONAL BANK, AND FROWING MARKETS IN LDCS ARE FAVORABLE FACTORS FOR EXPORT GROWTH. HOWEVER, GOAL OF 10 PERCENT INCREASE (VOLUME) IN EXPORTS MUST OVERCOME WEAKENED DEMAND IN KEY WESTERN TRADING PARTNERS AND ALSO MAY REQUIRE BASIC CHANGE IN ATTITUDE OF YUGOSLAV FIRMS, MANY OF WHICH ARE NOT EXPORT ORIENTED, AND FOREGIN TRADE ORGANIZATIONS WHICH OFTEN BEHAVE PRIMARILY AS IMPORTERS AND ONLY SECONDARILY AS EXPORTERS. THE CORE ISSUE OF HOW ECONOMIC GOALS WILL BE ACHIEVED, ESPECIALLY IN A YEAR WHICH WILL APPARENTLY FEATURE FURTHER DOMESTIC SELF-MANAGEMENT INNOVATIONS, REMAINS. DURING DEBATE IN ASSEMBLY MEMBER OF SLOVENIAN DELEGATION WAS UNUSUALLY PERSISTENT IN ASKING LIMITED OFFICIAL USE

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THAT EXPLICIT ACCORDS BE PRESENTED TO ASSEMBLY ON PRICES, MONETARY AND CREDIT POLICIES, DISTRIBUTION, AND FOREIGN TRADE, SO AS TO GO BEYOND GENERALITIES THAT HAVE TRADITIONALLY MARKED YUGOSLAV RESOLUTIONS ON ECONOMIC POLICY. THE FEC REPORTEDLY AGREED TO PRESENT THEM AS APPENDICES TO DRAFT RESOLUTION BUT COORDINATING ACCORDS AMONG REPUBLICS AND PROVINCES PROMISES TO BE DIFFICULT AND TIME CONSUMING AND ACTUAL IMPLEMENTATION IS A QUESTION MARK WITH INITIAL PROGRESS IN THIS NEW AREA IN 1974 FARILY SLOW. ACHIEVING ALL 1975 GOALS INCLUDING REDUCTION OF BALANCE OF PAYMENTS DEFICIT, MODERATION OF INFLATION, AND CHANNELING OF INVESTMENT REQUIRES GREATER DISCIPLINE, BETTER COORDINATION AND QUICKER RESPONSIVENESS THAN THIS ECONOMY HAS SHOWN IN 1974 OR PREVIOUS YEARS. BEYOND THIS IS ROLE OF INTERNATIONAL ECONOMIC FACTORS

, WHICH SIGNIFICANTLY AFFECTED MAGNITUDE OF YUGOSLAVIA'S BALANCE OF PAYMENTS AND INFLATION PROBLEMS IN 1974. SHOULD INTERNATIONAL SITUATION DETERIORATE, EXACERBATING INFLATION, BALANCE OF PAYMENTS DEFICIT AND SENDING YUGOSLAV WORKERS IN WESTERN EUROPE HOME IN LARGE NUMBERS, THEN GOALS OF 1975 POLICY WILL BE OVERTAKEN. ON OTHER HAND, IMPROVEMENT IN INTERNATIONAL SITUATION, ESPECIALLY OIL PRICES AND EMPLOYMENT OPPORTUNITIES IN WESTERN EUROPE, WOULD GREATLY BOOST YUGOSLAV ECONOMY. IN 1974 YUGOSLAVIA HAS COPEDED BETTER THAN OTHERS WITH DRAMATIC INTERNATIONAL CHANGES AND YUGOSLAV RESOURCEFULNESS, COUPLED WITH POSSIBLE FINANCIAL ASSISTANCE FROM NEWLY RICH THIRD WORLD COUNTRIES MAY STAND THEM IN GOOD STEAD AGAIN IN 1975. MILLER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, INFLATION, MEETING CHAIRMAN, SPEECHES, BALANCE OF PAYMENTS, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 04 DEC 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974BELGRA06078
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740352-1070, D740351-0935
From: BELGRADE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741262/aaaacbhx.tel
Line Count: 253
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 03 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <03 APR 2002 by elyme>; APPROVED <14-Aug-2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FEC VICE CHAIRMAN STATE OF ECONOMY SPEECH SUMMARY: FEC VICE CHAIRMAN BERISLAV SEFER IN SPEECH TO
TAGS: ECON, EGEN, EFIN, YO, FEC, (BERISLAV), (SEFER, BERISLAV)
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005